

Chapter 3
***Audit Involvement
in the Agreement Process***

Why Audit

WSDOT conducts cost and compliance audits for management to ensure that funds paid to outside organizations are eligible and that the firm complied with federal, state, and WSDOT rules, regulations, and the terms of the contract or agreement.

What is Auditing

Auditing can be compared to a road map. Driving from Olympia to Spokane, a person can identify a series of roads which allows you to drive from Point A to Point B. When a firm bills WSDOT for services, the auditor expects to identify the item of cost, by finding the supporting document to substantiate each item of cost billed. This audit trail, just like the dots on a map that connect one road to another allowing you to drive from Spokane to Olympia is what the auditor is expecting to find, i.e., an Audit Trail (road map) which leads from the costs billed to WSDOT (Point A) to those original documents (Point B) such as time sheets, invoices, and work sheets used for developing overhead rates, etc., which support the billed costs.

Audit and the Consultant Process

To understand how audit fits into the WSDOT consultant process, we will first look at the consultant selection process through product delivery.

Note: This process is simplified for example only, and may not relate to each consultant selection process.

- WSDOT identifies a need — in this case, a new bridge.
- Decision is made whether design work is performed in-house or contracted out.
- WSDOT advertises a Request for Proposal.
- A number of firms respond with proposals.
- Consultant selection interviews take place.
- Based on the consultant interviews, a firm is selected.
- Audit Office Involvement — WSDOT management requests a preaward audit. Its purpose is to determine that the firm has a cost accounting system capable of recording and tracking income and expenditures, and to verify the firm's labor rates, overhead, and direct nonsalary costs.
- Audit Office conducts preaward audit and issues a report to WSDOT management.
- Contract negotiations are finalized, agreement is executed, and work by the consultant begins.

- Work progresses, with the consultant submitting monthly billings for work performed to a region or the Olympia Service Center.
- Fourteen months into the project, WSDOT management requests an interim audit. Audit Office conducts audit and issues a report to the consultant and WSDOT management. Possible recommendations include: overhead rate be increased or decreased for the next billing cycle; unsupported labor costs, due to miscoding of project time sheets, be refunded to WSDOT.
- WSDOT management resolves interim audit findings, as work by the consultant continues.
- Two years and three months after entering into the agreement with WSDOT, the consultant's work is completed.
- Three months later, or two years and six months after consultant started work, the final billing is paid by WSDOT.
- WSDOT Audit Office now has up to three years time to conduct a final audit of the consultant and/or subconsultants records. This time limit is usually established in the agreement between WSDOT and the consultant and also is specified in FARs.

Note: This means that if the agreement started on January 1, 1997, and final payment was made to the consultant on June 1, 1999, the consultant and any subconsultants must retain all source or original documentation until at least June 1, 2002.

After completion of the post audit, the report is provided to the consultant and WSDOT management for audit resolution.

What Triggers an Audit

An audit may be conducted at any time during the life of an agreement. WSDOT management can make special requests for audits. The WSDOT Audit Office will normally conduct an interim audit of a consultant agreement, when the length of the agreement exceeds two years.

Interim Audits

Audits done after a portion of the work has been done. This type of audit is usually done only on very large agreements or on agreements that extend over a long time period.

Post Audits

Post audits, after completion of work, are conducted on those agreements which exceed \$100,000, but may also be conducted on those under \$100,000 at management's request or at the discretion of the Audit Office.

Preaward Audits

Preaward audits will be conducted on any agreement where the proposal exceeds \$250,000 in total costs, or at the request of a WSDOT contracting officer on any proposal.

Agreements Closed Without Audit

When the total cost of a completed agreement is less than \$100,000, it will usually be closed without audit. But an audit could be conducted at management's request or at the discretion of the Audit Office.

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